

**Statement of the Honorable Gordon England**  
**Deputy Secretary of Defense**  
**Before the House Budget Committee**  
**31 July 2007**

Chairman Spratt, Representative Ryan, Members of the House Budget Committee,

Thank you for the invitation to continue our discussion from January 18, 2007, about the costs of military operations and reconstruction in Iraq and Afghanistan, as part of the broader global war on terror (GWOT).

For the leaders and people of Iraq and Afghanistan, this is a challenging and difficult time, as they struggle to build states that can govern, defend and sustain themselves. For America, this is a time for leadership, commitment and resolve – to support these emerging new partners and allies in the war on terror.

In Iraq and Afghanistan, success requires the ongoing application of all instruments of national power. It is appropriate that your second panel this morning includes our colleagues from the Department of State, the Honorable Joseph Saloom and the Honorable John Gastright, Jr., as well as the Special Inspector General for Iraq Reconstruction, Stuart Bowen, Jr.

With me this morning is Ms. Tina Jonas, Under Secretary of Defense (Comptroller), and Lieutenant General John Sattler, Director for Strategic Plans and Policy on the Joint Staff. The three of us look forward to your questions.

As Secretary Gates has said, the Department is firmly committed to an open and transparent dialogue with the Congress about war costs.

The Department practices that transparency in part through the regular Cost of War Reports to the Congress. In July 2007, the Department delivered the most recent Report, accounting for war costs through May 2007.<sup>1</sup> That Report showed that since September 11, 2001, the Congress had appropriated \$523 billion for Operation Enduring Freedom (OEF) and Operation Iraqi Freedom (OIF), out of a total of \$549 billion for the global war on terror including Operation Noble Eagle (ONE). The Report further indicated that as of the end of May 2007, the Department had obligated \$438.4 billion for OIF, OEF, and ONE.<sup>2</sup>

Of course, war costs represent only part of the Department's responsibilities. Since 9/11, the Department has been prosecuting the fight against terror and responding to natural disasters in real time, while simultaneously transforming both the force and the enterprise to meet the full array of current and future security challenges, at home and abroad. As ever, the Department's highest priority is taking care of our men and women in uniform and their families – this is the

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<sup>1</sup> Defense Finance and Accounting Service, "Cost of the Global War on Terror Monthly Report to Congress"

<sup>2</sup> By-year breakdown, in billions of current dollars, for GWOT obligations since September 11<sup>th</sup>, 2001, including OIF, OEF and ONE:

FY01	FY02	FY03	FY04	FY05	FY06	FY07	Total
16	17	66	70	91	103	75	438

finest fighting force in the world, and therefore expensive. The Administration's budget requests address and prioritize this full spectrum of concerns and responsibilities.

Since the first supplemental request for the current war effort, submitted shortly after 9/11, there has been a debate about war cost methodology. The usual budget process is deliberate, looking out one to two years into the future. Supplemental budget requests, prepared closer to the time when the money will be spent, more accurately reflect requirements on the ground – for example, the numbers and kinds of forces required, and the equipment that needs to be replaced.

In the National Defense Authorization Act of FY 2007, the Congress directed the President to submit the full-year costs of ongoing operations in the war on terror, in the defense budget request. The President did so, with the FY 2008 GWOT request. The Department is deeply cognizant of its responsibility to exercise good stewardship of taxpayer dollars, and committed to remaining professional, open, and transparent regarding processes and costs.

For the FY 2008 GWOT request, the Department extrapolated on the basis of current costs at the time of the request submission. That request, for a total of \$141.7 billion, includes three major categories:

Continuing the Fight	\$102.5 billion <sup>3</sup>
Enhancing Ground Forces	\$1.6 billion <sup>4</sup>
Reconstituting the Force	\$37.6 billion <sup>5</sup>

The forthcoming Iraqi Security Forces Assessment Commission Report, and the President's September Report on Iraqi Benchmarks, are likely to provide additional input and analysis relevant to GWOT requirements in FY 2008. The nature and scope of adjustments to the GWOT request will depend on these new insights, on the evolving situation on the ground, on the President's decisions, and on the timelines for action.

Accordingly, some adjustments to the FY 2008 GWOT request are expected. For example, the request does not contain any funding for the plus-up of forces in Iraq past October 1, 2007. The plus-up forces and their equipment will not be redeployed overnight, so some costs are expected. The request contained projected funding for Iraqi Security Forces – which will need to be adjusted pending the outcome of the Assessment currently underway. And additional funds will be needed for Mine Resistant Ambush Protected (MRAP) vehicles in FY 2008 – the FY 2008 GWOT request contains \$400 million, but the total requirement for FY 2008 is now projected to be \$5.8 billion. The Department will continue to evaluate that requirement as the program moves forward.

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<sup>3</sup> In billions of dollars: Operations 70.6; Force Protection and IED Defeat 15.2; Military intelligence 2.7; Security Forces 4.7; Coalition Support and CERP 2.7; Military construction .7; Non-DoD classified 5.9.

<sup>4</sup> For accelerating Brigade Combat Teams and Regimental Combat Teams

<sup>5</sup> Reconstitution includes repairing and replacing equipment that has been damaged or destroyed, in order to restore DoD inventories. The Department's methodology is replacing destroyed equipment with the latest appropriate model, rather than purchasing something obsolete.

It is critically important that Congress act on the President's entire budget request by October 1, 2007. Without FY 2008 GWOT funding, the Department would have to resort to using baseline accounts to support the war effort, which would be disruptive to critical efforts to improve and maintain readiness. Without that funding, the Department cannot make the long-term commitments required for effective and efficient management of DoD resources.

Future war funding requests beyond FY 2008 will be, of necessity, situation-dependent, and will require a flexible approach. The course of warfare itself is by definition uncertain, perhaps particularly so in an asymmetrical environment. Moreover, history shows that post-war commitments – from Japan, to Korea, to Kosovo – can last for many years, taking a wide variety of forms. Future requirements in Iraq and Afghanistan will depend on the course of events on the ground and the decisions made in the meantime.

One approach that will not work effectively is funding the Department on a monthly or quarterly basis. The Department's leadership, and commanders in the field, need sufficient, reliable, and sustained funding to support processes and systems like logistics, equipment maintenance, acquisition of replacement equipment, and the like. Contractors need the guarantee of sufficient funding in order to plan production schedules and acquire the materials needed. Insufficient or uncertain funding tends to delay delivery, drive up costs, and delay essential equipment needed by the men and women who are in harm's way.

Several key aspects of GWOT funding merit particular attention.

The Department's greatest concern for our deployed men and women is force protection. The single deadliest threat to our forces is from improvised explosive devices (IEDs) wielded by an innovative and adaptive adversary. The Department's Joint IED Defeat Organization (JIEDDO) continues to apply a comprehensive approach to countering the IED threat, including attacking the IED networks, developing and fielding thousands of IED counter-measures, and expanding pre-deployment training.<sup>6</sup>

The MRAP family of vehicles is a critical step forward in force protection. MRAPs are armored vehicles with a raised chassis and a V-shaped under-carriage, with improved ability to detect and deflect blasts from roadside and deeply buried bombs.

The Department's goal is to get as many of these lifesaving vehicles to servicemembers in the field, as quickly as prudently possible. To that end, the Department has dramatically compressed the normal contracting process, and helped industry ramp up production capacity – this is not 'business as usual'.

To date, the Congress has provided the Department with a total of \$4.4 billion for MRAP vehicles. To further accelerate the procurement of MRAPs and to buy all available industrial production capacity, Secretary Gates requested, and the Congress just approved, a reprogramming of nearly \$1.2 billion in FY 2007. The Department is using this total of \$5.6

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<sup>6</sup> Funding appropriated and requested (FY08) for JIEDDO, in billions of dollars:

FY06	FY07	FY08 GWOT	FY08 Base	FY08 Total
3.3	4.3	4.0	.5	4.5

billion to order 6,400 MRAPs. The Defense Department expects more than half of these vehicles to be delivered by the end of this calendar year. In order to buy the maximum number of MRAP vehicles with the available funds, the Department is deferring some of the costs for these vehicles into FY 2008. The Department will require \$5.3 billion in FY 2008 to purchase another 1,520 vehicles as well as to provide mission equipment, spares, logistics support, transportation costs and enhanced armor kits.

Another high priority is the training of security forces. America's most direct and effective partners in building stable and secure environments in Iraq and Afghanistan are the security forces – the military and the police – of those countries.

In Iraq, a critical component of the New Way Forward, initiated in January, is enhancing efforts to build the capacity and capabilities of the Iraqi Security Forces.<sup>7</sup> That includes not only a stronger U.S. presence, but also adjusted methodologies – increased partnering of coalition units with Iraqi counterparts, and more embedding of transition team personnel with Iraqi units.

The efforts in Iraq to date do show progress. As of last month, 154,000 military personnel and 194,000 police had been trained and equipped, toward a new total endstrength goal of 390,000 by December 2007. Iraqi forces include 119 Iraqi Army, Special Operations and Strategic Infrastructure Battalions, of which 96 are operating independently or in the lead in their areas of responsibility. For the current operations in Baghdad, the Government of Iraq was able to provide the equivalent of three brigades to support the effort. Congress has mandated an independent assessment of the training and readiness of the Iraqi Security Forces, due by late September.<sup>8</sup>

In addition, more than 30 Joint Security Stations have been established in Baghdad. They serve as coordination points for coalition forces, Iraqi police, Iraqi Army, and national police. They provide an extensive, permanent, overt security presence in local neighborhoods, designed to encourage confidence and facilitate relationships and information flow with the local population.

In Afghanistan, training, equipping, and mentoring the Afghan National Security Forces (ANSF) is an integral part of the strategy.<sup>9</sup> The quantities of forces and the capabilities required have been revised in view of the changing environment – including the resurgence of Al Qaeda and the Taliban, as well as criminal elements. A major focus is the creation of Afghan units able to independently conduct counter-insurgency operations.

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<sup>7</sup> Following is the funding appropriated and requested (FY 2008) to date for Iraqi Security Forces, in billions of current dollars. This funding supplements the support budgeted by the Government of Iraq to train and equip their own security forces - \$7.3 billion in calendar year 2007.

FY04	FY05	FY06	FY07	FY08	Total
5.0	5.7	3.0	5.5	2	21.2

<sup>8</sup> Pursuant to Public Law 110-28, Section 1314, 25 May 2007. The Report is due 'not later than 120 days after the enactment of the Act.'

<sup>9</sup> Following is the funding appropriated and requested (FY 2008) to date for the ANSF, in billions of current dollars:

FY04	FY05	FY06	FY07	FY08	Total
.7	1.0	1.9	7.4	2.7	13.7

To date, about 115,000 ANSF, of a planned 152,000, have been trained and equipped. Of those, about 39,000 (of a planned 70,000) are Afghan National Army; while about 76,000 (of a planned 82,000) are Afghan National Police.

Indeed, training and equipping the security forces of partner countries is an integral part of the nation's strategy for meeting the full array of future global security challenges. In the long run, the most effective and sustainable approach is for partner nations around the world to meet and defeat terrorist and other threats within their own borders. Section 1206 authority, granted by the Congress in FY 2006 and FY 2007, has proven to be an extremely responsive tool for rapidly training and equipping partner nations' security forces, to meet emerging needs and opportunities. This year, the Administration continues to seek \$500 million in dedicated funding in the FY 2008 baseline, for Section 1206 activities. The Administration is also requesting that the Congress increase Section 1206 budget authority from \$300 million to \$750 million, expand that authority to all security forces, and make this vital tool permanent.

The Commanders Emergency Response Program (CERP) has been a particularly effective initiative in the current war efforts.<sup>10</sup> In the early days of Operation Iraqi Freedom, commanders on the ground recognized the importance of complementing security initiatives with efforts to help provide basic social services, jumpstart local economies, and restore the local social fabric. CERP initially provided limited but immediately-available funds to make a concrete difference in people's daily lives. Many commanders came to consider CERP the most powerful weapon in their arsenal.

In recent years, CERP has continued to support a wide variety of small-scale relief and reconstruction projects, ranging from reconstruction of water and sanitation facilities, to school repair, to restoring power stations, lines and generators, to providing humanitarian relief, to renovating cultural centers, museums and libraries, to repairing telecommunications infrastructure.

CERP's responsiveness to local information and concerns is a key part of the broader counter-insurgency approach. The Department carefully monitors CERP execution, and reports quarterly on it to the Congress.<sup>11</sup> The CERP Reports provide summary listings of execution data, by category, and DoD provides more detailed project listings to Committee staff.

Success in the war on terror is a matter not only of buying the right things, but also of utilizing appropriate and rigorous processes for determining priorities and monitoring execution. Since 2001, reforming the defense enterprise itself has been a "main effort" – designed to make the Department more effective, and thereby more efficient.

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<sup>10</sup> Following are funds appropriated or requested (FY 2008), in billions of dollars. The apparent discrepancy for Afghanistan is due to rounding.

	FY05	FY06	FY07	FY08 GWOT	Total
Iraq	.7	.7	.7	.8	2.9
Afghanistan	.1	.2	.2	.2	.8
Total	.8	.9	1.0	1.0	3.7

<sup>11</sup> Pursuant to Section 1202 of the National Defense Authorization Act for FY 2006, and Section 9006 of the DoD Appropriations Act 2007

That effort has included introducing more inclusive and more rigorous decision-making processes, including the Deputy's Advisory Working Group (the "DAWG"), which I chair together with the Vice Chairman of the Joint Chiefs of Staff. Launched during the 2006 Quadrennial Defense Review, the DAWG is a highly inclusive governance body that meets frequently to articulate and update the Department's strategic vision, to determine the reorientation of capabilities and approaches required to meet that vision, and to refine budget priorities.

The Defense Business Systems Management Committee, which I chair, meets monthly to set corporate-level policy and programmatic priorities for business systems modernization, and to monitor and direct progress. For example, it oversees implementation of the Enterprise Transition Plan – the roadmap for progress, complete with schedules, metrics, and milestones.

Rigorous financial management is a critical component of the Department's business management efforts.

In December 2005, the Department launched an aggressive initiative – the Financial Improvement and Audit Readiness Plan (FIAR) – aimed at achieving an unqualified audit opinion while simultaneously institutionalizing improved systems for doing so. The goal is that by 2010, 72% of the Department's assets and 79% of its liabilities will receive clean audit opinions.

Financial management includes not only preparing for audit, but maximizing financial effectiveness and efficiency in general. In the last 6 years, the Defense Finance and Accounting Service (DFAS) has reduced costs by \$238 million, and increased productivity by 39%. These efficiencies reduce total administrative overhead and return dollars to the warfighter.

The need for rigorous financial management extends to the contracting that supports our forces' efforts in Iraq and Afghanistan, and in the broader war on terror. In the war since 9/11, contractors have played a critical role in support functions, allowing the military to focus on operational missions.

As of April 2007, the Department had approximately 129,000 contractor personnel in Iraq, of whom approximately 16% were U.S. citizens, 51% were local nationals, and 33% were third-country nationals. In Afghanistan, as of April, there were approximately 4,600 U.S. contractor personnel supporting DoD.<sup>12</sup>

Some contracting practices and performance from the early years of the GWOT raised concerns in the Department and in the Congress. In response, DoD has worked assiduously to improve oversight and accountability of GWOT-related contracting.

The Department is committed to taking rigorous steps to eliminate waste, fraud and abuse. DoD's internal controls, modeled on leading-edge approaches in industry and other agencies, are proving very effective in checking and preventing possible errors.

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<sup>12</sup> Collection of data on local national and third-country national contractors supporting DoD in Afghanistan has been directed by CENTCOM; the data will be provided when available.

The DoD Inspector General (IG) plays an essential oversight role. In FY 2007, the DoD IG has 34 GWOT-related audit projects (10 completed, and 24 on-going), worth approximately \$91.5 billion. That work is supported by approximately 150 auditors, including those based at field offices in Iraq, Afghanistan, and Qatar. From FY 2002 to FY 2006, the DoD IG completed 33 GWOT-related audits.

These efforts have included a series of reviews of the Iraq and Afghanistan Security Forces Funds (ISFF and ASFF) established to support training and equipping those forces, as well as constructing and renovating facilities and infrastructure for them. In its review of \$5.7 billion of the \$14 billion in ISFF funds appropriated through FY 2006, the DoD IG determined that the obligations of those funds had complied with the intent of applicable Public Law. The DoD IG is working with DFAS to resolve issues concerning substantiating documentation for the receipt of ISFF goods and services in Iraq.

At the Service level within DoD, to date, the U.S. Army Audit Agency has issued 37 audit reports directly related to the war efforts in Iraq and Afghanistan, and currently maintains 25 auditors in theater. The Air Force Audit Agency (AFAA) has completed 9 GWOT-related audits, producing approximately \$50 million in monetary benefits. Seven additional AFAA audits are ongoing, and 7 others are planned. The work is carried out by 48 AFAA auditors who perform mobile audits in theater twice a year. The Navy Audit Service does not have any ongoing GWOT-related audits, but in 2005, it completed a limited review of 44 Marine Corps Systems command contracts, valued at \$125 million.

An additional key player is the Office of the Special Inspector General for Iraq Reconstruction (SIGIR), as you will hear directly from Mr. Stuart W. Bowen, Jr., at the second panel today. SIGIR, mandated with oversight responsibility for the use and potential misuse of obligations, expenditures, and revenues associated with reconstruction and rehabilitation activities in Iraq, reports directly to the Secretaries of State and Defense, and complements the efforts of our agencies' respective Inspector General offices.

As the 14th SIGIR Quarterly Report released yesterday indicates, between 1 February 2004 and 30 July 2007, SIGIR has completed 94 reports and continues to work on 19 additional audits.

Of course, in any organization – or any society – there is always the potential for criminal abuse by those who would deliberately violate the trust vested in them. While abuse of that nature cannot always be prevented, it can be uncovered and punished, creating a deterrent effect. For those cases, the Department has systems in place to prosecute offenders. To date, DoD IG investigations related to the war on terror have resulted in 17 convictions (2 in 2005, 12 in 2006, and 3 so far in 2007). Successful prosecutions include that of a former contractor employee who pled guilty to wire fraud and conspiracy to launder money, related to the award of a subcontract for food services in Kuwait. He was sentenced to a term of 12 months and one day in prison.

In addition, SIGIR has 65 ongoing investigations. Past SIGIR investigations have contributed to 5 convictions, including that of a former official in the Coalition Provisional Authority, for conspiracy to defraud the CPA, and to commit wire fraud and launder funds, in connection with

a scheme to steal currency designated for Iraqi reconstruction. Through 30 July 2007, SIGIR reports that its investigations have recovered or seized \$19.8 million in court-ordered restitution and forfeiture.

Importantly, the Department's goal is not only to identify problems, but also to institutionalize solutions. The contractor performance oversight efforts by the Defense Contractor Audit Agency (DCAA) are helping contracting officials reduce proposed prices and recover over-billed costs. In Fiscal Year 2006, DCAA performed over 35,610 reviews, with a total contract value of approximately \$345 billion, yielding a savings of over \$2.3 billion.

An updated contractor registry program, using a web-based database tool – Synchronized Pre-deployment and Operational Tracking – is improving visibility on contracts and contractors accompanying the force.

Organizationally, the Department has created a Program Support Office, under the Under Secretary of Defense for Acquisition, Technology, and Logistics, to provide centralized policy, management, and oversight for contracts and contractor performance in support of all war and contingency operations. In theater, US Central Command created the Joint Contracting Command to provide centralized management and responsive operational contracting support for ongoing operations in Iraq and Afghanistan.

To lay a stronger basis for future efforts, “Contingency Contracting” is now taught at the Defense Acquisition University, and the Department is currently developing contingency acquisition curricula for other DoD schools.

To support the Congress's oversight mission, on July 2, 2007, DoD forwarded to the Congress the “Report on DoD-funded Service Contracts in Forward Areas”, covering the numbers of contracts and contractors, the costs, and the types of activities, in Iraq and Afghanistan.<sup>13</sup> A complementary report on DoD programs and policies for managing contractor personnel will follow shortly.<sup>14</sup>

Two weeks ago, in Iraq and Afghanistan, I had the opportunity to talk with many brave Americans who have volunteered their service to protect and defend the nation and our friends and allies. Secretary Gates and I do thank you for your steadfast support for the men and women who wear the cloth of this nation and for the civilians who support them.

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<sup>13</sup> Pursuant to Section 3305 of the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act 2007, Public Law 110-28 (May 25, 2007)

<sup>14</sup> Pursuant to Section 854, John Warner National Defense Authorization Act for Fiscal Year 2007, Public Law 109-364 (October 17, 2006)